



# **Overview of Rebased Inpatient Hospital Reimbursement System and Discussion of Budget Neutrality Options**

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# Agenda Items



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- ❑ Overview of Rebasing Process
- ❑ Overview of Rebased System versus Current System
  - Peer Group Rates
  - Relative Weights
  - Outlier Thresholds
  - Add-on Amounts (*capital, GME*)
- ❑ Payment Impact of Rebased System
- ❑ Budget Neutrality Options

# Overview of Rebasing Process

- ❑ Five key components updated in developing new payment rates
  1. New Grouper (*v16 versus v23*)
  2. Paid claims data: SFYs 2004 and 2005\*
  3. Cost-to-charge ratios: HFYs 2003 and 2004
  4. Capital add-on: HFY 2004 cost reports and capital surveys for CY 2004 and 2005
  5. GME add-on: 2004 cost reports

\* *All non-Medicare claims were included, both CMO and FFS*

# Rebased System vs. Current System



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- Impact of moving from Grouper v16 to Grouper v23:
  - 41 new DRGs (v23) created from 54 old DRGs (V16)
  - 111 combinations of old and new DRGs

# Rebased System vs. Current System

## Changes in Peer Group Base Rates

	<u>Current</u>	<u>New*</u>	<u>Pct. Change</u>
Statewide:	\$3,737.81	\$5,096.13	36.3%
Pediatric:	\$4,221.93	\$5,731.89	35.8%
Specialty:**	\$7,828.38	\$8,495.39	8.5%

*\*Before budget neutrality adjustment*

*\*\* Peer group average. Some specialty hospitals have hospital-specific base rate.*

# Rebased System vs. Current System

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- Two factors contribute to the change in base rates
  1. As a result of the changes in the outlier thresholds, a larger percentage of the claims are paid as “inliers”.
    - 419 DRG outlier thresholds increased (77%)
    - 80 DRG outlier thresholds decreased (15%)
    - 44 DRG outlier thresholds did not exist in 2002 (8%)

# Rebased System vs. Current System

## 2. Changes in Relative Weights\*

- 106 DRGs had relative weights that increased (20%)
- 396 DRGs had relative weights that decreased (73%)
- 41 were new DRGs, therefore no current relative weight exists (8%)

*\* See separate handout for a complete listing of old and new DRG relative weights*

# Capital Add-on Amounts

- Distribution of capital add-on amounts under the rebased system

	<u>Mean</u>	<u>Min.</u>	<u>25th</u>	<u>50th</u>	<u>75th</u>	<u>Max.</u>
All Hospitals	\$542.82	\$72.98	\$295.89	\$417.42	\$582.06	\$8,145.91
Statewide	\$428.47	\$72.98	\$289.40	\$409.17	\$549.35	\$ 959.81
Pediatric	\$1,149.53	\$987.08				\$1,396.99
Specialty	\$5,096.35	\$3,061.38				\$8,145.91



# Financial Impact of Rebasing

- ❑ Maintaining reimbursement at a level that is budget neutral requires two adjustments:
  - When setting the new rates, costs across hospitals were inflated to a common point of time that is prior to the midpoint of the new payment year (*costs were all inflated to January 1, 2005*).
  - The overall level of payment across all rate components (*base rates and add-on components*) needs to be reduced to reflect that the rebased payment level exceeds budget neutrality by 6.91%.

# Sample of Payment Changes

Sample claim payment -- current vs. new system

<b>Sample Claim Payment Under Current Payment System</b>							
DRG V16	Covered Charge	Current Outlier Threshold	Current Base Rate	Current Relative Weight	Operating Payment	Current Add-ons	Current System Payment
370	\$6,856.70	\$28,516.24	\$3,737.81	1.2246	\$4,577.32	\$230.17	\$4,807.49
<b>Sample Claim Under New Payment System</b>							
DRG V23	Covered Charge	New Outlier Threshold	New Base Rate	New Relative Weight	Operating Payment	New Add-ons	New System Payment
370	\$6,856.70	\$33,172.20	\$5,096.13	0.9466	\$4,824.00	\$410.29	\$5,234.29

# Budget Neutrality Scenarios

- Four budget neutrality scenarios were modeled for discussion. Based on Department input, GME was not affected by budget neutrality adjustments.

1. Reduction to base rates only (*8.61% base rate reduction*)
2. Capital add-on capped at 10%; remainder of reduction from base rates (*6.87% base rate reduction*)

# Budget Neutrality Scenarios

- Four budget neutrality scenarios were modeled for discussion. Based on Department input, GME was not affected by budget neutrality adjustments.

*(continued)*

3. Capital add-on limited to 2002-2005 median change; remainder of reduction from base rates (*7.18% base rate reduction*)
4. Capital add-on limited to 2002-2005 statewide average change; remainder of reduction from base rates (*6.78% base rate reduction*)

# Budget Neutrality Scenarios

## □ Overview of 4 models

		Projected Payment			
	SFY 2005 Amount Paid	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Pediatric Hospitals	\$73,683,782	\$70,465,272	\$71,092,842	\$71,129,312	\$71,080,014
Specialty Hospitals	\$9,622,306	\$8,818,831	\$8,870,844	\$8,865,143	\$8,872,896
Statewide Hospitals	\$538,938,295	\$543,159,666	\$542,414,512	\$542,397,630	\$542,421,200
<= 50 beds	\$19,101,128	\$20,083,725	\$19,720,711	\$19,714,065	\$19,721,506
51 - 200 beds	\$109,902,041	\$115,405,731	\$113,611,140	\$113,787,093	\$113,567,392
> 200 beds	\$409,913,472	\$407,650,495	\$409,062,279	\$408,876,212	\$409,111,885
<b>Total</b>	<b>\$622,244,383</b>	<b>\$622,443,769</b>	<b>\$622,378,198</b>	<b>\$622,392,085</b>	<b>\$622,374,110</b>

		Percent Change			
		Scenario 1	Scenario 2	Scenario 3	Scenario 4
Pediatric Hospitals		-4.4%	-3.5%	-3.5%	-3.5%
Specialty Hospitals		-8.4%	-7.8%	-7.9%	-7.8%
Statewide Hospitals		0.8%	0.6%	0.6%	0.6%
<= 50 beds		5.1%	3.2%	3.2%	3.2%
51 - 200 beds		5.0%	3.4%	3.5%	3.3%
> 200 beds		-0.6%	-0.2%	-0.3%	-0.2%
<b>Total</b>		<b>0.03%</b>	<b>0.02%</b>	<b>0.02%</b>	<b>0.02%</b>

# Budget Neutrality Discussion



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- ❑ Discussion of criteria for evaluating options
- ❑ Discussion of options (*e.g., adjusting base rates by peer group*)
- ❑ Recommendations/next steps